

Consumer Morsel

Ring the bell for back to school season

11 August 2022

Key talking points

- Despite weakening demand for goods and concerns around the resilience of consumer spending, the 2022 back to school (BTS) season kicked off on a strong footing. Bank of America internal data suggests that consumers started BTS shopping earlier this year, possibly to get better deals amid inflation, and to avoid potential delays.
- An earlier BTS season could be positive for consumer spending in July though it could put downward pressure on spending in August as spending may have been pulled forward. The boost to spending from this year’s BTS season also seems to be bigger than that of last year and 2019: for the week ending August 6 ‘22, BTS spending was 22% higher than its June average.
- Regionally, more than 10 states have already had or begun tax holidays for BTS items, which boosted spending noticeably. We also find that the peak of BTS spending in each state is correlated with the timing of these tax holidays.

With summer being more than halfway over, families in the US are once again preparing their kids for the school season. According to the National Retail Federation (NRF), BTS spending, which also includes back to college spending, is expected to reach a record high level of \$111bn, or a 1% year-over-year (YoY) increase this year. This follows two years of already strong BTS spending when families geared up with electronic devices to adopt remote learning. Note that the BTS season is one of the biggest events for retailers and the expected resilience in BTS spending this year should provide relief amid weakening demand for goods and overall concerns about consumer spending.

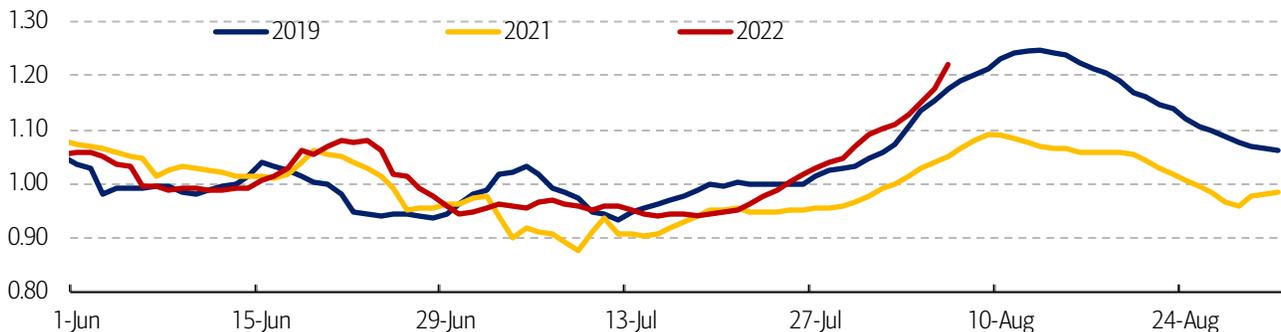
An earlier start for the BTS season

Similar to last winter’s holiday season, consumers started shopping early during this year’s BTS season, likely to get better deals and to avoid potential delays due to lingering supply chain issues. According to a survey released by the NRF, 56% of respondents had started BTS shopping by early July this year, up from 51% last year and 44% in 2019. This was echoed by the Bank of America internal card data. Our proxy for BTS spending, which includes spending at merchants that historically benefit the most from the BTS season, started to pick up meaningfully around July 21, about one week earlier than last year (Exhibit 1). An earlier start to BTS shopping could be positive for consumer spending in July, although August spending might be under pressure as part of the spending that would have happened in August was pulled forward.

The latest data point, which was for the week ending August 6, showed that BTS spending based on Bank of America card data was 22% higher than its average for the month June, a bigger boost than during the same period in both 2021 and 2019. On a %YoY basis, BTS spending for the week ending August 6 was up 3%. That said, the relatively smaller boost to BTS spending in 2021 was partially explained by the already elevated levels of goods spending following the distribution of stimulus.

Exhibit 1: Daily back-to-school spending per household, based on Bank of America credit and debit card data (index, June avg =1 for each year, 7-day moving average)

BTS spending started to pick up meaningfully around the 21 of July, about one week earlier than 2021

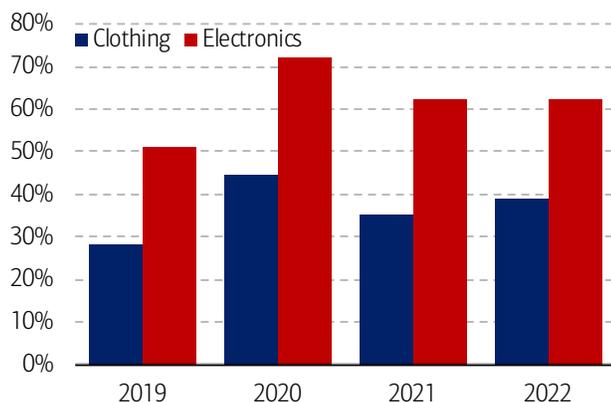


Source: Bank of America internal data. Note that we have not included 2020 out due to large swings in spending and an unusual school season.

E-commerce should continue to play a big role in this year's BTS season. Looking at the share of online sales for clothing and electronics stores, which are the main components for back to school shopping, we found that 39% of clothing and 62% of electronics spending was done online between July 1 and August 6 (i.e. our latest data point), roughly in line with last year but much higher than that of 2019 (pre-pandemic) (Exhibit 2).

Exhibit 2: Share of online sales (card not present) for spending at clothing and electronics stores, based on Bank of America card data (data is for July 1- Aug 6 for all four years)

Share of online spending at clothing and electronics stores remain high



Source: Bank of America internal data.

Exhibit 3: Timeline of tax holidays in each state for the BTS season

States started their tax free holidays late July with the most common exempt items being clothing/footwear, school supplies and computers

State	items	dates
Florida	School supplies, clothing, computers	Jul 25-Aug7
Mississippi	Clothing/footwear	Jul 29-30
Tennessee	Clothing, computers, school supplies	Jul 29-31
Iowa	Clothing	Aug 5-6
New Mexico	Clothing, computers, school supplies	Aug 5-7
Ohio	Clothing and school supplies	Aug 5-7
Oklahoma	Clothing	Aug 5-7
South Carolina	Clothing, computers, school supplies	Aug 5-7
Texas	Clothing, backpacks, school supplies	Aug 5-7
Virginia	Clothing, school supplies	Aug 5-7
West Virginia	Clothing, computers, school supplies	Aug 5-8
Illinois	Clothing and school supplies	Aug 5-14
Massachusetts	Retail items for personal use	Aug 13-14
Maryland	Clothing/footwear	Aug 14-20
Connecticut	clothing and footwear	Aug 21-27

Source: State government websites

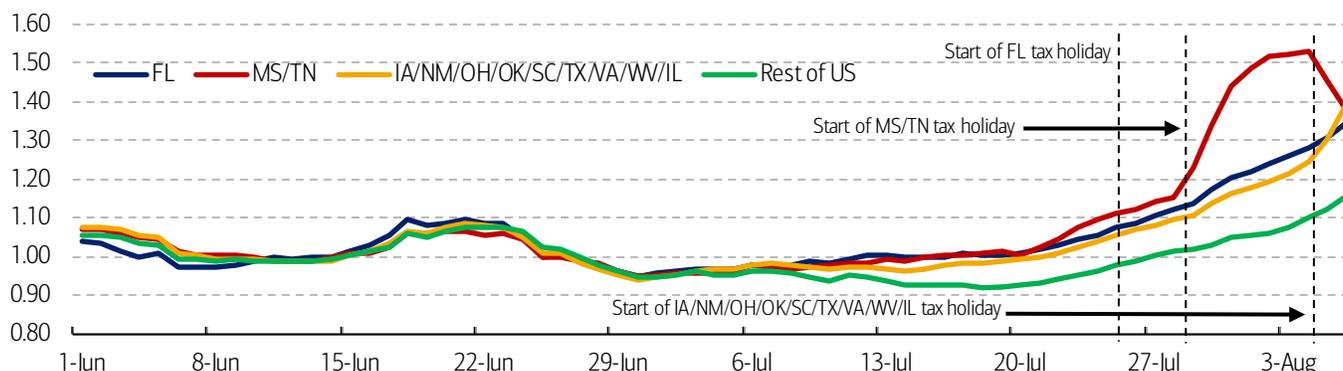
Regional tax holidays boost BTS spending

Each year, state governments designate a period of time, usually between late July and mid-August, which exempts sales tax for certain BTS items. As Exhibit 3 shows, the most common exempt items are clothing/footwear, school supplies and computers. We find that these tax holidays do boost BTS spending noticeably and that the peak of BTS spending in each state is correlated with the timing of these tax holidays.

Florida (FL) was among the first states to start its tax holiday this year and, as Exhibit 4 shows, BTS spending in FL has been on a steady increase since around the timing of its tax holiday on July 25. Interestingly, we did not see as dramatic an increase in BTS spending in FL as was seen in Mississippi and Tennessee. Both of these states had their tax holiday on the weekend of July 29, which coincides with a spike in BTS spending, though spending levels have come down in recent days as the boost from tax holidays fades. In addition, a handful of states had their tax holidays starting on August 5 and in the latest Bank of America internal card data through August 6, we see partial effects in these states. BTS spending in Iowa, New Mexico, Ohio, Oklahoma, South Carolina, Texas, Virginia, West Virginia and Illinois saw a fairly steep increase on August 5 though spending levels had already started to pick up steadily in late July. As a contrast, BTS spending in rest of US remained relatively muted. Presumably we will also see a pickup in BTS spending in the rest of the US, such as Massachusetts, Maryland and Connecticut, which have tax holidays later in the month.

Exhibit 4: Daily back-to-school spending per household, based on Bank of America credit and debit card data (index, June avg =1 for each group, 7-day moving average, states were grouped based on the timing of Tax free holiday for BTS items)

States usually see a pick-up in BTS spending around timing of the tax holiday



Source: Bank of America internal data

The bottom line

Despite weakening demand for goods and worries around the resilience of consumer spending, BTS season kicked off on a strong footing. Bank of America internal data suggest consumers started BTS shopping earlier this year, possibly to get better deals amid inflation and to avoid potential delays. An earlier BTS season could be positive for consumer spending in July though it put downward pressure to spending in August as spending may have been pulled forward. The boost to spending from this year's BTS season also seems to be bigger than that of last year and 2019. E-commerce should continue to play a big role in this year's BTS season. Regionally, tax holidays for BTS items boost spending noticeably and the peak of BTS spending in each state is correlated with the timing of these tax holidays.

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Methodology

Selected Bank of America transaction data are used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on aggregated and anonymized selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Bank of America credit/debit card spending per household include spending from active US households only. Only card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Additional information about the methodology used to aggregate the data is available upon request.

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